

Table 3.1
Breakdown of World Exports by Currency Denomination and by Region
(1992)

Region	US\$	DM	¥
North America, Australasia	15.0	0.3	0.3
Asia	15.5	0.6	4.2
Western Europe	6.7	13.6	0.3
OPEC	5.4	0.1	0.0
Other	4.9	0.7	0.1
TOTAL	47.6	15.3	4.8

Source: Ilzkovitz (1994)

The table clearly shows that the dominance of the US dollar is largely because there is no single European currency, plus the fact that Asia tends to use the US dollar for trade invoicing rather than domestic currencies. It has been well documented that the Japanese have not been anxious to encourage international use of the yen (see Iwami (1994)), so this void has been filled by the US dollar. But the question arises as to why there should be an accepted international vehicle currency in a region such as Asia, when the currency being used for invoicing isn't even issued in that region. Part of the reason lies in the US dollar's traditional role as numeraire for commodities, and the Asian preference for using the US currency for exporting to the US.

Use of a currency in trade invoicing is clearly an important result of the size of the network externality that a particular currency possesses. A number of empirically "stylised facts" have been observed for trade invoicing (see Hartmann (1996)):

- i) "Grassman's law" (Grassman (1973)): for trade in manufactured goods between industrial countries, the exporter's currency dominates; and of the remainder of currencies, the importer's currency will take the lion's share.
- ii) For north-south trade flows the north country's currency will be used or the US dollar;
- iii) Inflation-prone currencies are used less than less inflationary currencies;
- iv) Trade in primary products is usually invoiced in dollars (but sometimes in UK pounds); and
- v) The US dollar is the only currency for which the share of foreign trade invoiced substantially exceeds the share of the US in world trade.

The stylised facts suggest that the choice of invoicing currency tends to be made in regard to the type of good being traded and monetary stability. Little research has been done to explain these five stylised facts, but Viaene and de Vries (1992) suggest that Grassman's law might be explained because there are usually more import companies than export companies, so exporters will, on balance, retain a higher degree of bargaining power. They do not, however, provide any statistical proof that the numbers of import companies will exceed the number of export companies on average, or in any particular circumstance, so this hypothesis remains unsubstantiated.

What are the benefits of invoicing exports in domestic currency? The benefits are three-fold: elimination of exchange uncertainty (assuming no hedging), elimination of hedging costs and elimination of some real resource costs (that would otherwise have had to have been devoted to monitoring or reducing exchange rate risk). Of course, there may be advantages to invoicing in foreign currency, as is